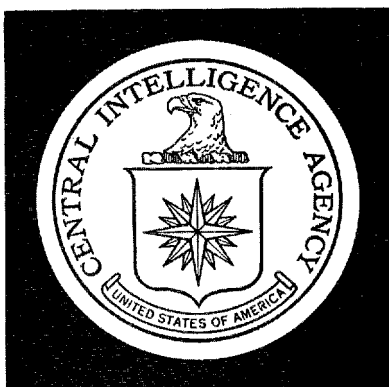


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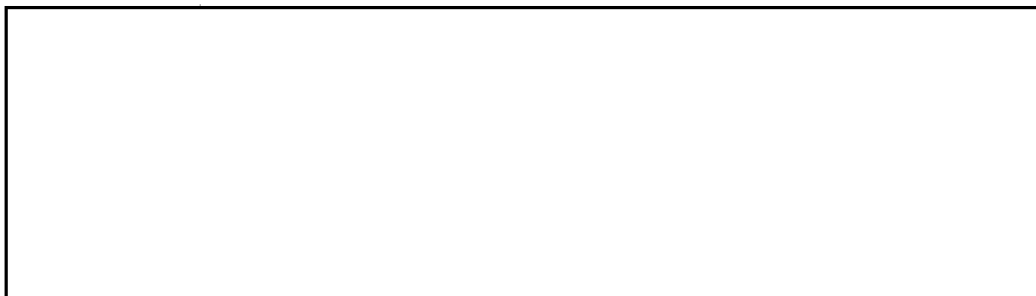
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【South Vietnam: Criticism of President Thieu continues to fester at home over his invitation to the Communists to participate in national elections.

Knowledgeable South Vietnamese political observers claim that Thieu's speech sowed confusion and disarray among the population, and that many persons are losing confidence in the President. Some of these sources say there are real popular fears that further concessions will be made to the Communists.

Possibly to allay such doubts, both houses of the National Assembly recently expressed displeasure with Thieu's actions and enjoined him against any further concessions.

Thieu, sensing the backlash to his speech, appears to be backing off somewhat on his proposal. In remarks prepared for domestic audiences, he has asserted that Communists will continue to be prosecuted and jailed. Thieu further denied that he meant any approval of Communism, or disrespect for the constitution, and stated that it would take two years before elections including Communist participation could be held.

The controversy over his early July speech notwithstanding, Thieu is moving ahead with plans to revamp the cabinet and to broaden his political base in the National Assembly. There are reports that each party in his National Social Democratic Front will be awarded a cabinet post, and that other progovernment groups outside this organization will also be represented.

* * * *

On the military scene, there continues to be no ground action of major significance, and important allied cities and installations were free of enemy mortar and rocket attacks on 22-23 July.

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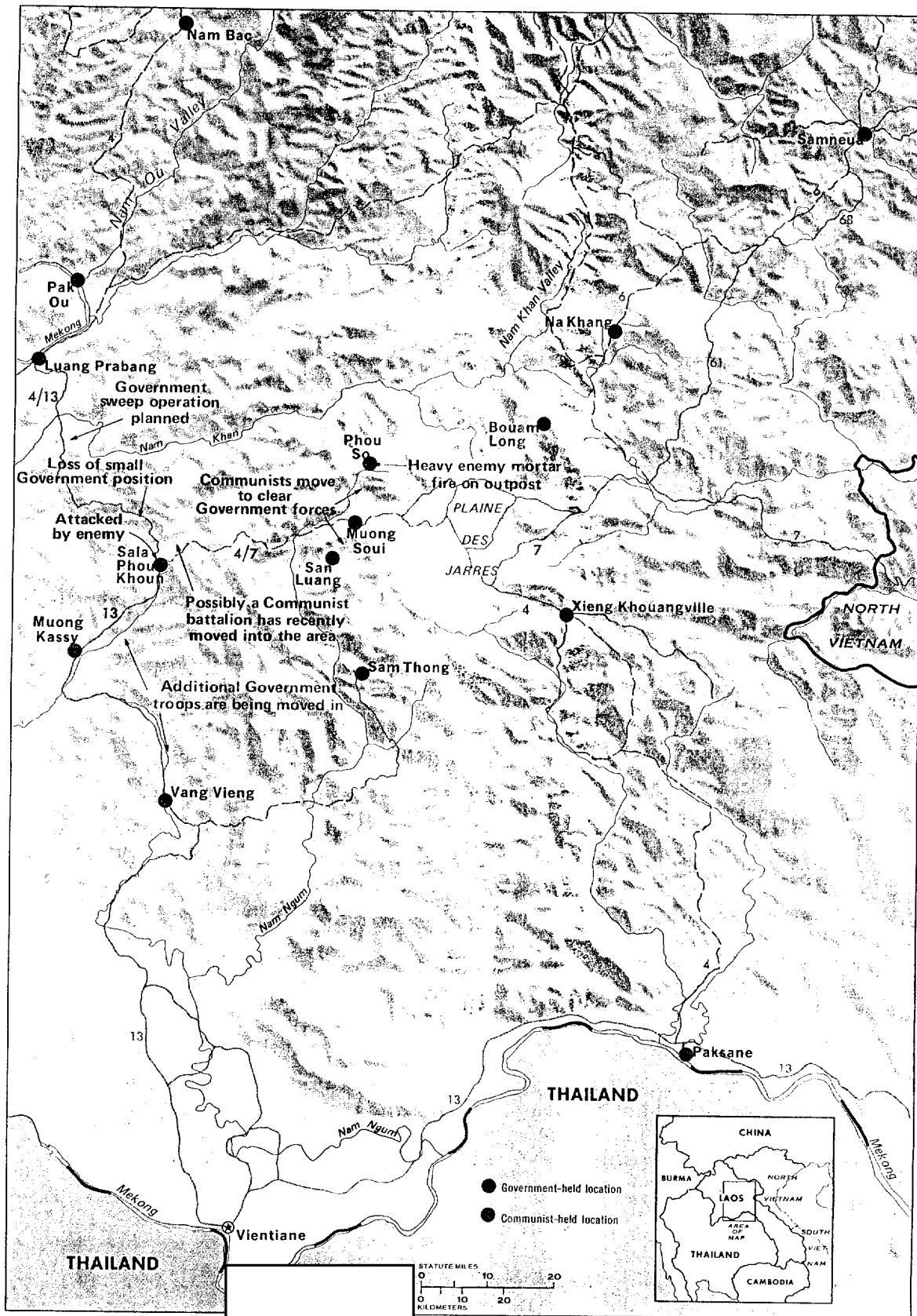
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LAOS: Current Situation



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Laos: The government is taking steps to blunt further Communist encroachments in north Laos while enemy forces continue to mop up around Muong Soui.



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Additional troops are being moved into the area between Sala Phou Khoun and Vang Vieng, and a sweep operation is planned to clear Route 13 south of Luang Prabang. The recent loss of a small government position astride Route 13 and an enemy attack against Sala Phou Khoun itself are fresh evidence of the government's vulnerability in the area.

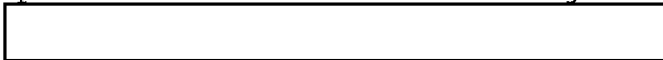
In the Muong Soui area, a multibattalion Communist force overran a number of government forward positions on 22 July, forcing the government troops to pull back to the San Luang support base.

North of Muong Soui, enemy troops overran a government refugee center and placed heavy mortar fire on the government outpost at Phou So.

Communist intentions to the west of Muong Soui are less clear. [redacted] a North Vietnamese battalion has recently moved into an area some three miles northeast of the junction of routes 7 and 13. These troops may have participated in the recent attack against Sala Phou Khoun.

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(Map)



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[El Salvador - Honduras: The OAS Council has scheduled a meeting of foreign ministers on 26 July in Washington to deal with El Salvador's failure to withdraw its troops from Honduras.

There is widespread concern among OAS members over the future of the organization if El Salvador is permitted to flout the OAS authority. Salvadoran troops remain in place on Honduran territory despite OAS orders to withdraw by midnight 22 July.

Military observers at the front report that the cease-fire remains in effect, but there is deep pessimism in Central America that it can last through the week. Guatemala and Nicaragua expect a new Salvadoran attack on Honduras at any time, and they are ready to assist Honduras if an attack materializes.

Nationalistic feelings, fueled by news media, are strong in both El Salvador and Honduras. Hondurans resent OAS failure to force the withdrawal of Salvadoran troops and are angry at the US for its refusal to give military assistance. El Salvador continues to charge Honduras with "genocide" and believes that the OAS has been partial to Honduras.



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USSR-Egypt: Moscow has agreed to provide new economic credits to Cairo after a hiatus of almost five years.

According to Cairo radio, an agreement was scheduled to be signed yesterday under which the USSR would provide a total of \$111 million in credits for the construction in Egypt of an aluminum complex, a phosphoric complex and a ferrosilicon plant. The new credits are the first to be extended since the fall of 1964, when Moscow made available about \$390 million in long-term and commercial credits for Egypt's current development plan, which ends in June 1970.

Feasibility studies on the establishment of industrial plants to utilize electricity from the Aswan High Dam have been under way since early this year. Soviet and Egyptian technicians calculate that the new installations, together with an iron and steel complex already under construction with Soviet assistance, will consume about half of the maximum power-generating capacity of the High Dam. Total capacity is expected to be from nine to ten billion kilowatt-hours in 1974.

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East Germany: Pankow's official report on the economy's performance during the first half of 1969 indicates that long-standing problems remain despite respectable growth in industrial production and labor productivity.

Although industrial production grew by eight percent over the comparable period of 1968, rising inventories of unsalable consumer goods, increasing numbers of unfinished construction projects, and labor shortages persist. East Germany also continues to produce poor-quality and obsolete products that are largely salable only in other CEMA countries.

Pankow has called upon workers to exceed its plan goals in celebration of the 20th anniversary of East Germany's existence this year. The mining and metallurgy, heavy machinery, and foreign trade sectors apparently made a good showing during the first six months. The major weak points appeared to be basic industry, the chemical industry, and the construction sector. Pankow claimed an increase in national income, but gave no figures; there was no report on agriculture.

Foreign trade almost made its ambitious planned growth rate of ten percent, but the increase was largely accounted for by expanded trade with other socialist countries. Although East - West German trade negotiators have predicted a 20-percent increase this year, the plan report mentioned only that interzonal trade is "increasing." This reflects Pankow's sensitivity about publishing data on such a large trade increase with "revanchist" West Germany while trying to dissuade other East European countries from doing business with Bonn.

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Nepal-India: Nepal remains adamant in its demand for the removal of all Indian border checkpoint personnel and military advisers.

King Mahendra is concerned that President Nixon will receive only India's version of deteriorating Indo-Nepalese relations during his visit to New Delhi next week. On 20 July, the King gave the US ambassador to Nepal a statement defining Nepal's position, which he hoped would be conveyed to the President. The King affirmed Nepal's desire for good relations with New Delhi but, in unusually strong terms, he repudiated India's claim to a special Indo-Nepalese relationship entailing Nepalese obligations to India in the security field.

Mahendra insists that existing arrangements infringe on Nepalese sovereignty and jeopardize the nation's neutrality. Overall, the King appeared more distressed by India's "big brotherly attitude" toward Nepal than by the difficulty of resolving the outstanding issues, which include a minor border dispute and a number of trade and transit problems.

For their part, the Indians may be willing to reduce the number of their personnel stationed in Nepal. In a parliamentary statement on 21 July, the Indian foreign minister reportedly said that India does not object "in principle" to changing the status of its 50-man military liaison group and gradually withdrawing Indian border watchers from their posts near the Tibet-Nepal frontier.

Every reiteration of Nepal's hard line toward India, however, makes it more difficult for the Nepalese to accept compromises and is likely to prolong the quarrel, with benefits accruing only to Communist China.

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